

105TH CONGRESS  
1ST SESSION

# S. 573

To amend the Internal Revenue Code of 1986 to allow an income tax deduction for student loan interest payments.

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## IN THE SENATE OF THE UNITED STATES

APRIL 15, 1997

Mr. GRASSLEY (for himself, Ms. MOSELEY-BRAUN, and Mr. BURNS) introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to allow an income tax deduction for student loan interest payments.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. SHORT TITLE.**

4       This Act may be cited as the “Loan Interest Forgive-  
5       ness for Education Act”.

6       **SEC. 2. DEDUCTION FOR INTEREST ON EDUCATION LOANS.**

7       (a) IN GENERAL.—Part VII of subchapter B of chap-  
8       ter 1 of the Internal Revenue Code of 1986 (relating to  
9       additional itemized deductions for individuals) is amended

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1 by redesignating section 221 as section 222 and by insert-  
 2 ing after section 220 the following:

3 **“SEC. 221. INTEREST ON EDUCATION LOANS.**

4       “(a) ALLOWANCE OF DEDUCTION.—In the case of an  
 5 individual, there shall be allowed as a deduction for the  
 6 taxable year an amount equal to the interest paid by the  
 7 taxpayer during the taxable year on any qualified edu-  
 8 cation loan.

9       “(b) LIMITATION BASED ON MODIFIED ADJUSTED  
 10 GROSS INCOME.—

11           “(1) IN GENERAL.—If the modified adjusted  
 12 gross income of the taxpayer for the taxable year ex-  
 13 ceeds \$65,000 (\$85,000 in the case of a joint re-  
 14 turn), the amount which would (but for this para-  
 15 graph) be allowable as a deduction under this sec-  
 16 tion shall be reduced (but not below zero) by the  
 17 amount which bears the same ratio to the amount  
 18 which would be so allowable as such excess bears to  
 19 \$20,000.

20           “(2) MODIFIED ADJUSTED GROSS INCOME.—  
 21 For purposes of paragraph (1), the term ‘modified  
 22 adjusted gross income’ means adjusted gross income  
 23 determined—

24           “(A) without regard to this section and  
 25 sections 135, 911, 931, and 933, and

1                   “(B) after application of sections 86, 219,  
2                   and 469.

3           For purposes of sections 86, 135, 219, and 469, ad-  
4           justed gross income shall be determined without re-  
5           gard to the deduction allowed under this section.

6                   “(3) INFLATION ADJUSTMENT.—In the case of  
7           any taxable year beginning after 1997, the \$65,000  
8           and \$85,000 amounts referred to in paragraph (1)  
9           shall be increased by an amount equal to—

10                   “(A) such dollar amount, multiplied by

11                   “(B) the cost-of-living adjustment deter-  
12           mined under section (1)(f)(3) for the calendar  
13           year in which the taxable year begins, by sub-  
14           stituting ‘1996’ for ‘1992’.

15                   “(4) ROUNDING.—If any amount as adjusted  
16           under paragraph (3) is not a multiple of \$50, such  
17           amount shall be rounded to the nearest multiple of  
18           \$50.

19                   “(c) DEPENDENTS NOT ELIGIBLE FOR DEDUC-  
20           TION.—No deduction shall be allowed by this section to  
21           an individual for the taxable year if a deduction under sec-  
22           tion 151 with respect to such individual is allowed to an-  
23           other taxpayer for the taxable year beginning in the cal-  
24           endar year in which such individual’s taxable year begins.

25                   “(d) DEFINITIONS.—For purposes of this section—

1           “(1) QUALIFIED EDUCATION LOAN.—The term  
2           ‘qualified education loan’ means any indebtedness  
3           incurred to pay qualified higher education ex-  
4           penses—

5                   “(A) which are incurred on behalf of the  
6           taxpayer, the taxpayer’s spouse, or any depend-  
7           ent of the taxpayer as of the time the indebted-  
8           ness was incurred,

9                   “(B) which are paid or incurred within a  
10          reasonable period of time before or after the in-  
11          debtedness is incurred, and

12                  “(C) which are attributable to education  
13          furnished during a period during which the re-  
14          cipient was at least a half-time student.

15          Such term includes indebtedness used to refinance  
16          indebtedness which qualifies as a qualified education  
17          loan. The term ‘qualified education loan’ shall not  
18          include any indebtedness owed to a person who is re-  
19          lated (within the meaning of section 267(b) or  
20          707(b)(1)) to the taxpayer.

21           “(2) QUALIFIED HIGHER EDUCATION EX-  
22          PENSES.—The term ‘qualified higher education ex-  
23          penses’ means the cost of attendance (as defined in  
24          section 472 of the Higher Education Act of 1965,  
25          20 U.S.C. 1087*ll*, as in effect on the day before the

1 date of the enactment of this Act) of the taxpayer  
 2 or the taxpayer’s spouse at an eligible educational  
 3 institution, reduced by the sum of—

4 “(A) the amount excluded from gross in-  
 5 come under section 135 by reason of such ex-  
 6 penses, and

7 “(B) the amount of the reduction de-  
 8 scribed in section 135(d)(1).

9 For purposes of the preceding sentence, the term ‘el-  
 10 igible educational institution’ has the same meaning  
 11 given such term by section 135(c)(3), except that  
 12 such term shall also include an institution conduct-  
 13 ing an internship or residency program leading to a  
 14 degree or certificate awarded by an institution of  
 15 higher education, a hospital, or a health care facility  
 16 which offers postgraduate training.

17 “(3) HALF-TIME STUDENT.—The term ‘half-  
 18 time student’ means any individual who would be a  
 19 student as defined in section 151(c)(4) if ‘half-time’  
 20 were substituted for ‘full-time’ each place it appears  
 21 in such section.

22 “(4) DEPENDENT.—The term ‘dependent’ has  
 23 the meaning given such term by section 152.

24 “(e) SPECIAL RULES.—

1           “(1) DENIAL OF DOUBLE BENEFIT.—No deduc-  
 2           tion shall be allowed under this section for any  
 3           amount for which a deduction is allowable under any  
 4           other provision of this chapter.

5           “(2) MARRIED COUPLES MUST FILE JOINT RE-  
 6           TURN.—If the taxpayer is married at the close of  
 7           the taxable year, the deduction shall be allowed  
 8           under subsection (a) only if the taxpayer and the  
 9           taxpayer’s spouse file a joint return for the taxable  
 10          year.

11          “(3) MARITAL STATUS.—Marital status shall be  
 12          determined in accordance with section 7703.”.

13          (b) DEDUCTION ALLOWED WHETHER OR NOT TAX-  
 14          PAYER ITEMIZES OTHER DEDUCTIONS.—Section 62(a) of  
 15          the Internal Revenue Code of 1986 (defining adjusted  
 16          gross income) is amended by inserting after paragraph  
 17          (16) the following:

18               “(17) INTEREST ON EDUCATION LOANS.—The  
 19               deduction allowed by section 221.”.

20          (c) REPORTING REQUIREMENT.—

21               (1) IN GENERAL.—Subpart B of part III of  
 22               subchapter A of chapter 61 of the Internal Revenue  
 23               Code of 1986 (relating to information concerning  
 24               transactions with other persons) is amended by in-  
 25               serting after section 6050R the following:

1 **“SEC. 6050S. RETURNS RELATING TO EDUCATION LOAN IN-**  
 2 **TEREST RECEIVED IN TRADE OR BUSINESS**  
 3 **FROM INDIVIDUALS.**

4 “(a) EDUCATION LOAN INTEREST OF \$600 OR  
 5 MORE.—Any person—

6 “(1) who is engaged in a trade or business, and

7 “(2) who, in the course of such trade or busi-  
 8 ness, receives from any individual interest aggregat-  
 9 ing \$600 or more for any calendar year on 1 or  
 10 more qualified education loans,

11 shall make the return described in subsection (b) with re-  
 12 spect to each individual from whom such interest was re-  
 13 ceived at such time as the Secretary may by regulations  
 14 prescribe.

15 “(b) FORM AND MANNER OF RETURNS.—A return  
 16 is described in this subsection if such return—

17 “(1) is in such form as the Secretary may pre-  
 18 scribe,

19 “(2) contains—

20 “(A) the name, address, and TIN of the  
 21 individual from whom the interest described in  
 22 subsection (a)(2) was received,

23 “(B) the amount of such interest received  
 24 for the calendar year, and

25 “(C) such other information as the Sec-  
 26 retary may prescribe.

1       “(c) APPLICATION TO GOVERNMENTAL UNITS.—For  
2 purposes of subsection (a)—

3               “(1) TREATED AS PERSONS.—The term ‘per-  
4 son’ includes any governmental unit (and any agency  
5 or instrumentality thereof).

6               “(2) SPECIAL RULES.—In the case of a govern-  
7 mental unit or any agency or instrumentality there-  
8 of—

9                       “(A) subsection (a) shall be applied with-  
10 out regard to the trade or business requirement  
11 contained therein, and

12                      “(B) any return required under subsection  
13 (a) shall be made by the officer or employee ap-  
14 propriately designated for the purpose of mak-  
15 ing such return.

16       “(d) STATEMENTS TO BE FURNISHED TO INDIVID-  
17 UALS WITH RESPECT TO WHOM INFORMATION IS RE-  
18 QUIRED.—Every person required to make a return under  
19 subsection (a) shall furnish to each individual whose name  
20 is required to be set forth in such return a written state-  
21 ment showing—

22               “(1) the name and address of the person re-  
23 quired to make such return, and

24               “(2) the aggregate amount of interest described  
25 in subsection (a)(2) received by the person required



1 to make such return from the individual to whom  
 2 the statement is required to be furnished.

3 The written statement required under the preceding sen-  
 4 tence shall be furnished on or before January 31 of the  
 5 year following the calendar year for which the return  
 6 under subsection (a) was required to be made.

7 “(e) QUALIFIED EDUCATION LOAN DEFINED.—For  
 8 purposes of this section, except as provided in regulations  
 9 prescribed by the Secretary, the term ‘qualified education  
 10 loan’ has the meaning given such term by section  
 11 221(d)(1).

12 “(f) RETURNS WHICH WOULD BE REQUIRED TO BE  
 13 MADE BY 2 OR MORE PERSONS.—Except to the extent  
 14 provided in regulations prescribed by the Secretary, in the  
 15 case of interest received by any person on behalf of an-  
 16 other person, only the person first receiving such interest  
 17 shall be required to make the return under subsection  
 18 (a).”.

19 (2) ASSESSABLE PENALTIES.—Section 6724(d)  
 20 of such Code (relating to definitions) is amended—

21 (A) in paragraph (1)(B), by redesignating  
 22 clauses (x) through (xv) as clauses (xi) through  
 23 (xvi), respectively, and by inserting after clause  
 24 (ix) the following new clause:

1 “(x) section 6050S (relating to re-  
 2 turns relating to education loan interest re-  
 3 ceived in trade or business from individ-  
 4 uals),”, and

5 (B) in paragraph (2), by striking “or” at  
 6 the end of the next to last subparagraph, by  
 7 striking the period at the end of the last sub-  
 8 paragraph and inserting “, or”, and by adding  
 9 at the end the following new subparagraph:

10 “(Z) section 6050S(d) (relating to returns  
 11 relating to education loan interest received in  
 12 trade or business from individuals).”.

13 (d) CONFORMING AMENDMENT.—The table of sec-  
 14 tions for part VII of subchapter B of chapter 1 of the  
 15 Internal Revenue Code of 1986 is amended by striking the  
 16 last item and inserting the following:

“Sec. 221. Interest on education loans.  
 “Sec. 222. Cross reference.”.

17 (e) EFFECTIVE DATE.—The amendments made by  
 18 this section shall apply to any qualified education loan (as  
 19 defined in section 221(d)(1) of the Internal Revenue Code  
 20 of 1986, as added by this section) incurred on, before, or  
 21 after the date of the enactment of this Act, but only with  
 22 respect to any loan interest payment due after December  
 23 31, 1996.